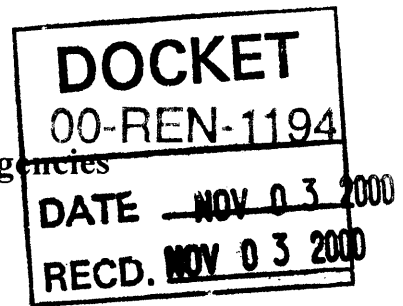


**Mandatory Purchase of Renewable Energy by State Agencies
Comments to California Energy Commission
on Implementation of SB 1194 / AB 995**



How to define a minimum purchase?

The options range from requiring that all state agency electricity be obtained from renewable generation – which would likely exhaust the market and create strong additional upward pressure on power prices, especially renewable power – to requiring that some portion of the state government's electricity needs be met by renewables. This could be defined in several ways:

- As a minimum quantity, on a monthly or annual basis
- As a minimum percentage, on a monthly or annual basis

The objective of such a requirement would be to further establish and promote the market for renewable generation and to encourage the development of new renewables in California.

State Executive Agencies as Bundled Service Customers

State facilities (with the exception of the University of California and California State University campuses) are "bundled service" customers of their local utility distribution companies (UDCs). For UDCs that are investor owned utilities, the commodity portion of the service provided is obtained from the California Power Exchange and can be deemed as "system power" in accordance with the analysis prepared under SB 1305. For UDCs that are municipal utilities, the commodity portion reflects the individual power mix of the serving municipal utility. In the case of the IOUs, there is no discrete green power option available at this time; municipal utilities may offer specific green power options to some or all of their rate classes.

The CSU campuses and the University of California combined to implement a direct access contract with Enron Energy Services. This successful contract is in its final two years and UC/CSU are currently reviewing their options for how best to supply their campuses' electricity needs.

Renewable Electricity Mandates and Direct Access

The goal of purchasing renewable commodity electricity in quantities above those implicit in system power from the Cal PX requires that state agencies become direct access electricity consumers. Under this alternative, state agencies would need to contract for commodity power, schedule coordination services and metering and billing services. Some of these services (e.g., metering and billing) could be obtained from the existing utility service providers. Other services could be obtained via a combined commodity purchasing program such as the Electric Services Master Services Agreement (MSA) established by the Department of General Services. Under today's market conditions, this would almost certainly entail paying significantly more for electricity than is now incurred from existing utilities, independent of any market premium for "green" or renewable power.

The State's Experience in the Direct Access Market

The state's experience with the Direct Access market has been less than encouraging. In 1997 the Department of General Services established a Master Services Agreement (MSA 7013) for Electricity Services. Energy Assessments within the Real Estate Services Division and the Division of Procurement enlisted the participation of 8 major energy service providers (ESPs) offering full electricity services and two additional ESPs that offered metering services only. These services were made available to state agencies and other interested public sector entities in California. The MSA specifically allowed for the provision of renewable generation as a commodity service to prospective customers.

In keeping with procurement rules that seek to obtain least cost purchases of goods and services for state agencies, state agencies are not at liberty to purchase above market prices absent a specific instruction to do so (e.g., bidding rules for certified Small Businesses and Disabled Veteran-owned Business Enterprises). Also, the DGS program is non-mandated, and customers typically approached the program seeking discounts off of default service, i.e., the otherwise available utility tariffs. Renewable generation products, where offered by suppliers under the MSA, were and are typically priced at a premium to conventionally produced electricity.

Energy Assessments sought from its one ESP that specifically offered renewable generation but uncertainties in the market and regulatory pressures on that company forestalled successful execution of any supply arrangements. The company has subsequently turned back most of its direct access customers to default utility service, as have other ESPs providing both renewable and conventional power.

Other Means of Meeting a Mandate for State Agencies to Procure Renewable Generation

In addition to purchasing commodity energy from renewable generators, the State has the very real option of meeting some of its electricity needs from renewable generation that is developed at its own facilities. This development can occur either as part of the state's capital outlay process (e.g., in the form of building integrated photovoltaics) or as a specific development program, such as is now planned as part of the state's response to Executive Order D-15-00.

Market prices for electrical energy and, more importantly, electrical capacity, are highly volatile at present and for the immediately foreseeable future. The benchmark prices that renewable generation would have to meet or beat has fallen well within reported ranges for the installed costs of a number of renewable technologies, including wind and solar photovoltaic generation, for a significant number of hours this past summer. Commodity power prices are forecast to remain high in comparison to average power prices for 1998-1999.

Recommendation: Promote Renewable Energy by Direct Project Installation at State Facilities

Requiring state agencies to purchase renewable energy on a commodity basis is a relatively ineffective means of developing this market, due to the low leverage obtained from mandating state purchases of renewable energy. Administrative expense will be incurred in altering the current purchasing processes and utility customer status of public sector facilities that would otherwise fund agency programs.

A more direct result can be achieved by promoting the incorporation of renewable, grid connected distributed generation at state facilities. This will assist in adding electricity resources to California's power supply and supporting some of the state facilities' power consumption. In addition, it will assist in promoting the market for renewable generation technologies by providing demand for these products.

Gigi Tien - Mandatory Purchase of Renewable Energy by State Agencies

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Date: 11/3/00 1:39 PM
Subject: Mandatory Purchase of Renewable Energy by State Agencies
CC: "Grandy, Doug" <Doug.Grandy@dgs.ca.gov>, "Baca, John" <John.Baca@dgs.ca.gov>, "Barr, Jack" <Jack.Barr@dgs.ca.gov>

Marwan,

As you requested, here's our input on the concept of a state renewable energy purchase requirement.

Please contact me with any questions. I'd be happy to discuss.

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